

ADMINISTRATION, AUDIT, AND ENFORCEMENT

During the 2002-2003 reporting period, the Charitable Gaming Division initiated and/or resolved separate administrative actions involving gaming licenses. Below is a summary of the Division's Administrative Actions:

Administrative Orders Issued:

Reconsideration of intended license application denial:	
License Denial	6
License Suspension	1
License Cancellation	1
Reconsideration of intended license application denial:	
License Approval	1

Administrative Actions Initiated and Pending:

Administrative Fine***	8
License Denial	5
License Revocation	2

Administrative Actions Initiated and Resolved without an Order:

License Denial, Suspension, Cancellation, Revocation	
Rescinded*	4
Resolved by Operation of Law**	21
Resolved by Stipulation, Suspension, and/or Fine***	2
Dismissed	2
Waiver of Hearing and Voluntary Surrender of License	1
Administrative Fine	
Waiver of Hearing and Payment of Fine***	9
Dismissed	3

*License denials were rescinded for a number of reasons, including the applicant withdrew the application and the payment of delinquent taxes in instances where the license denial was based on nonpayment of taxes.

**Resolution by operation of law occurs when a license application denial becomes final because a license applicant does not respond to a Notice of Intent to deny within the 30-day time period allowed to request an administrative hearing.

***Total amount collected: \$12,104.62. Monies collected from the fines assessed are deposited by the State Treasurer into the Permanent School Fund for the support and maintenance of schools in Nebraska.

Temporary licenses and authorizations were granted by the State Tax Commissioner to applicants where the Department sought to deny a license application in order to protect the rights of the parties during the pendency of any administrative or court proceedings. As of the close of the annual reporting period, the following temporary licenses and authorizations were granted:

Utilization of Funds Member	5
Class I Lottery by the Sale of Pickle Cards	2
Pickle Card Operator	3
Manufacturer-Distributor	1

The Licensing Section is responsible for the licensing of individuals, businesses, nonprofit organizations, counties, cities, and villages which conduct charitable gaming activities in Nebraska.

The first county/city lottery worker license renewals were completed in May of 2003 due to the enactment of LB545 in 2002. These lottery worker licenses will expire on May 31 of odd-numbered years. The counties, cities, villages, lottery operators, and sales outlet location licenses will expire May 31, 2004.

The Licensing Section now issues all licenses for a biennial period. Licenses issued to nonprofit organizations which are tax-exempt under section 501(c)(3) or (c)(4) or volunteer fire companies, or volunteer first-aid, rescue, ambulance, or emergency squads (VF&E) expire on September 30 of odd-

numbered years while licenses issued to nonprofit organizations having tax exempt status other than 501(c)(3) or (c)(4) or VF&E expire on September 30 of even-numbered years.

The Policy Section is responsible for the implementation of legislation enacted by the Nebraska Legislature relative to charitable gaming activities, identification of needed legislative changes in the charitable gaming areas which it regulates, recommendation and drafting of proposed legislation relative to charitable gaming, promulgation of administrative regulations and revenue rulings to clarify and supplement statutory provisions, development and publication of information guides and a periodic newsletter for gaming licensees, and for the rendering of day-to-day opinions and interpretations of charitable gaming laws.

During this past legislative session, the Nebraska Legislature enacted LB429 relating to the use of bingo card monitoring devices. LB429 contained the emergency clause and was effective April 3, 2003. A bingo card monitoring device is a technological aid which allows a bingo player to enter numbers as they are announced at a bingo occasion and which marks or otherwise conceals those numbers on bingo cards which are electronically stored in and displayed on the device. Prior to the enactment of LB429, players who used bingo card monitoring devices were also required to mark or daub disposable paper bingo cards. LB429 eliminated the necessity for disposable paper bingo cards to be used with such devices and redefined bingo card to include a facsimile of a bingo card electronically displayed on a bingo card monitoring device.

In November 2002, the Charitable Gaming Division testified at the General Affairs Committee Interim Study Hearing on LR433. The purpose of LR433 was to study the Nebraska Lottery and Raffle Act and the Nebraska Small Lottery and Raffle Act and to determine whether legislation should be introduced to update Nebraska's lottery and raffle laws. As a result of the interim study hearing, the Policy Section worked with the General Affairs Committee and selected nonprofit organizations in developing a legislative proposal to revise Nebraska's laws on lotteries and raffles. LB782 was introduced by the General Affairs Committee reflecting the recommended changes to these laws. LB782 was subsequently indefinitely postponed by the Committee. Although LB782 was not enacted, statutory revisions are still desired to simplify the lottery and raffle laws and eliminate the inconsistencies in the current laws.

We have again received inquiries regarding the use of pickle card dispensing devices which incorporate the use of bar code technology and a video display of the pickle card. Traditional pickle cards are dispensed from the device which scans a bar code on the pickle card in order to display the winning or losing status of the pickle card. Based on an Attorney General's opinion (97004) issued in 1997, the use of this type of device is not specifically authorized under the Nebraska Pickle Card Lottery Act and legislation would be required in order to permit its use in Nebraska.

Work continues on revisions to the county/city lottery regulations. A draft of changes regarding game conduct has been sent to a number of licensees for input. We have also been working with the Division's Audit Section in revising the keno audit requirements and reporting requirements. A public hearing on the proposed changes is expected in early 2004.

The Nebraska Pickle Card Lottery Act requires manufacturers of pickle cards to submit new products to the Department for approval prior to marketing such products in Nebraska. In the past, new pickle card products were allowed to be submitted for approval on a monthly basis. The process included the actual submission of sample pickle cards and the flare card for the new game. The approval process was not only time consuming for the manufacturer but also involved a significant amount of Division staff time in updating a printed approved products listing for distribution to the manufacturers and distributors. In August 2003, an "e-submission" process was implemented whereby manufacturers could submit new products to the Department electronically. Electronic images of the pickle cards and flare cards are reviewed by Division staff prior to their approval. New products which have been approved are no longer distributed in a printed approved product listing, but instead are published on the Division's portion of the Department of Revenue's web site and updated on a weekly basis.

The Audit Section has responsibility for the enforcement and compliance review of the financial aspects of the licensed organizations conducting bingo, pickle card, and lottery/raffle activities and of licensed

counties, cities, and villages conducting county/city lottery (keno). The section is also responsible for the review of certain accounting elements of the computerized keno systems that are approved by the Department for use in county and city lottery operations.

In addition to routine and requested field audits, the Audit Section conducted monthly reviews of the pickle card tax returns submitted by licensed distributors; monthly reviews of the pickle card activity of organizations with significant cash shortages; reviews of bingo paper usage reflected on quarterly reports filed by Class II bingo licensees; quarterly reviews of the tax returns submitted by organizations conducting bingo and lottery/raffle and by counties, cities, and villages conducting keno; annual reviews of the gaming activity reports for counties, cities, and villages conducting keno and all nonprofit organizations which were involved in charitable gaming activity. The activity breakdown is as follows:

612	Pickle card annual reports reviewed
195	Bingo annual reports reviewed
305	Lottery/raffle annual reports reviewed
66	County/city lottery annual reports reviewed
89	Annual report nonfilers identified and referred to Inspection Section and/or Investigative Services
14	Annual report shortages or audited losses identified and referred to Inspection Section and/or Investigative Services
30	Other annual report violations identified and referred to Inspection Section and/or Investigative Services
22	Other annual report violations identified and referred to Policy Section and/or Legal Services
2	Field audits of bingo operations
19	Field audits of pickle card operations
7	Field audits of county/city lottery operations
238	Letters written to licensees in an attempt to explain problems with the annual reports and how a nonprofit can use the annual reports to audit themselves
21	Tracking of monthly reconciliation of pickle card funds for organizations reporting a shortage of funds
13	Organizations remitting additional tax of \$2,814 as a result of the annual report review or bingo audit
3	Organizations placed on legal stipulation (probation) as result of audits

In addition, memoranda, with audit findings and work papers, were prepared and provided to Legal and Investigative Services for further action where there were violations of gaming laws.

The Nebraska Lottery by Pickle Card Annual Report (Form 35A), Nebraska Bingo Annual Report (Forms 35 and 35C), and the Nebraska Lottery/Raffle Annual Report (Form 35B) were all placed on the Department's Web site under Charitable Gaming's tab. Relevant information may be entered on blank forms which contain formulas and all calculations are automatically performed. The completed form must be printed, signed, and provided to the membership of the organization and a copy mailed to the Charitable Gaming Division.

Extensive time was spent reviewing county/city lottery annual reports. These reports are based on procedures developed in 1996. Many cash survey field visits have also been completed and we are currently revising the keno tax return to develop a form which could be completed by keno licensees in lieu of the current procedural reports. This new form would summarize bank account activities and provide an income statement on an annual basis for the counties, cities, and villages licensed for keno. Informational notices based on our annual report reviews have been mailed to the licensees introducing them to areas of financial concern. The proposed changes may provide more valuable information on the operation of the keno game as well as save the counties, cities, and villages time and money.

The Inspection Section consists of six inspectors supervised by the Charitable Gaming Division Audit Manager. The inspectors work out of regional offices located in Scottsbluff, Grand Island, Norfolk, and Omaha, as well as the main office in Lincoln. While the inspectors continue to review the conduct of

bingo, pickle cards, and lottery/raffle activities, they have extended their review to the financial reporting and record keeping of licensed organizations and their use of charitable gaming funds for lawful purposes. Inspectors are also reviewing the conduct of county/city lottery (keno) activities including the licensing and financial accountability of keno writers, the sponsoring community's controls, and the use of the funds designated for community betterment purposes. During the 2002-2003 reporting period, the staff assigned to inspections conducted the following charitable gaming activities:

154	Bingo Game Inspections
208	Organization Inspections (Pickle Card and Lottery/Raffle)
1,466	Pickle Card Operator Inspections
299	Keno Compliance Visitations
59	Formal Presentations to Gaming Licensees or Potential Licensees
112	Illegal Device Follow-ups
1,671	MAD Inspections
309	Annual Report Reviews and Filing Follow-ups
206	Administrative Contact and Inquiries

Investigative Services is responsible for investigative and enforcement functions involving charitable gaming activities, as well as numerous other responsibilities within the Department. Investigative Services staff members are located at various locations throughout the state, having responsibility for general investigations and license applicant background investigations.

Investigative Services continues to work closely with the Charitable Gaming Division on gaming related matters in an effort to keep gaming activities as well enforced as possible, and yet flexible enough to accommodate the public. The investigations conducted by the service area are both civil and criminal in nature and, following completion, a large number of the investigations are forwarded to local prosecuting attorneys for potential criminal prosecution. Investigative Services continues to enjoy an excellent working relationship with various law enforcement agencies and prosecuting attorneys throughout the state.

During the reporting period, Investigative Services conducted the following charitable gaming-related investigative and enforcement-related activities:

3	Manufacturer Background Investigations
5	County/City Lottery Background Investigations
184	Investigations resulting from alleged violations and/or complaints (all gaming activities combined)